

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF INTEGRATED RESOURCE
PLANNING FOR THE PROVISION OF
STANDARD OFFER SERVICE BY
DELMARVA POWER & LIGHT COMPANY UNDER
26 DEL C. § 1007(c) & (d): REVIEW
AND APPROVAL OF THE REQUEST FOR
PROPOSALS FOR THE CONSTRUCTION OF
NEW GENERATION RESOURCES UNDER 26
DEL. C. § 1007(d)
(OPENED JULY 25, 2006)

PSC DOCKET NO. 06-241

EXPLANATORY
MEMORANDUM REGARDING
MARK UP TO PROPOSED RFP
DELMARVA POWER & LIGHT
COMPANY'S PROPOSED RFP

PREPARED FOR:

**Delaware Public Service Commission Staff
Delaware Office of Management and Budget
Delaware Energy Office
Delaware Controller General**

PREPARED BY THE CONSULTING TEAM OF:

**New Energy Opportunities, Inc.
Merrimack Energy Group, Inc.
La Capra Associates, Inc.
Edward L. Selgrade, Esq.**

September 27, 2006

EXPLANATORY MEMORANDUM REGARDING THE INDEPENDENT CONSULTANT'S MARK UP TO THE PROPOSED RFP

The Independent Consultant retained by the Delaware Public Service Commission, the Energy Office, the Office of Management and Budget, and the Controller General (the "State Agencies") submitted, on September 18, 2006, its initial report containing its evaluation and recommendations regarding the proposed RFP submitted by Delmarva Power & Light Company ("Delmarva") to purchase power under long-term contracts from new generation resources to be built in the state of Delaware ("Initial Report").¹ In our Initial Report, we made a number of recommended changes to Delmarva's proposed RFP ("Proposed RFP") and offered to provide a mark up to the Proposed RFP indicating how our proposed changes should be implemented.

The Proposed RFP consists of three documents: (a) Instructions to Bidders ("RFP"); (b) Key Commercial Terms of Power Purchase Agreement ("Terms and Conditions"); and (c) Bidder Response Forms. Attached (as separate documents) are marked up versions of the three documents which contain our recommended changes as well as requests for additional information where, we believe, further information is needed.²

In our Initial Report (p. 12), we proposed use of an availability adjustment factor for use in power purchase agreements for generating facilities other than intermittent renewable energy projects and indicated that we would propose a mechanism that would provide a strong incentive for generators to maintain high availability during peak seasonal and hourly periods. The specific mechanism that we are recommending is set forth in Attachment 3 of the Terms and Conditions. However, we recognize that there are many different types and variants of availability adjustment mechanisms and would entertain any comments or suggestions from the parties to this proceeding, which we would address in our final report.

There are several areas in our markup where we are soliciting input from Delmarva as well as other participants in this proceeding. These include:

- Limits on Delmarva's obligation to buy Renewable Energy Credits (RFP Section 1.1.2)
- Guidance on standards Delmarva intends to use in making assessments on Variable Interest Entity treatment (RFP Section 2.2.2)
- Description of Delmarva proposed approach for calculating price stability (RFP Sections 2.3 and/or 2.3.7)
- Description of Delmarva proposed approach for using market price scenarios to determine Residual SOS Cost Impact (RFP Section 2.3.3)

¹ The Independent Consultant is New Energy Opportunities, Inc. and its consulting team of Merrimack Energy Group, Inc., La Capra Associates, Inc., and Edward L. Selgrade, Esq.

² The Instructions to Bidders and Terms and Conditions documents are in MS Word format. We have used DeltaView to show our recommended changes from Delmarva's proposal. The Bidder Response Forms are a MS Excel document. Our recommended additions are shown in red; changes are identified in the "History" worksheets.

- Spreadsheet for calculation of imputed debt offset (RFP Section 2.3.6, new Bidder Response Form S)
- How bidders may obtain compensation for Ancillary Services (RFP Section 3.1.3)
- Delmarva discretion in seeking additional credit support (RFP Section 3.4)

There are a few instances where we made some relatively minor changes that were not addressed in the Initial Report (e.g., minimum term of Letter of Credit, RFP Section 3.4.2) and a number of our suggested edits were for clarification or to avoid inconsistencies or to provide greater specificity. For example, we have refined and provided a more specific recommendation regarding an option for bidders to use indexed pricing for a portion of their proposed capacity charges (RFP Section 2.3.1).